



RETIREMENT SYSTEM



PARTNERING TO BUILD FINANCIAL SECURITY FOR MEMBERS AND THEIR FAMILIES

Overview

The Wyoming Retirement System (WRS) administers retirement plans for most public employees in Wyoming. Established in 1953 when the state employees' pension and the teachers' pension were combined, WRS encompasses almost all non-federal public employees in Wyoming.

By centralizing administration, employers can provide retirement benefits without specializing in this area of expertise. WRS provides retirement benefits at a low administrative cost.

Our Mission

Providing expert administration and responsible investment of Wyoming's public retirement and supplemental savings program

Employers

As of January 2014, WRS served 713 employers and nearly 74,000 members. There are nine different defined benefit pension plans. Disability and death benefits, important for human resource management, are included within each pension plan.

Retirement benefits are an important way that employers recruit qualified workers and avoid costly staff turnover. Research¹ shows that a pension plan is a particular help to employers in this regard. In a member survey, over 80 percent of actively employed WRS members in 2012 and 2013 said the pension is "Mostly Important" or "Very Important" in keeping them in their current employment.

Retirement benefits are a part of total compensation determined by each employer. Employers have the flexibility to pay for some or all of the contribution required for employees according to the employer's specific compensation arrangements.

The employers that participate in WRS range from small to large. With approximately 8,000 members, the largest single participating employer in WRS is Wyoming's executive, legislative and judicial branches of government. However, the school districts together employ approximately 18,000 of WRS' active members.

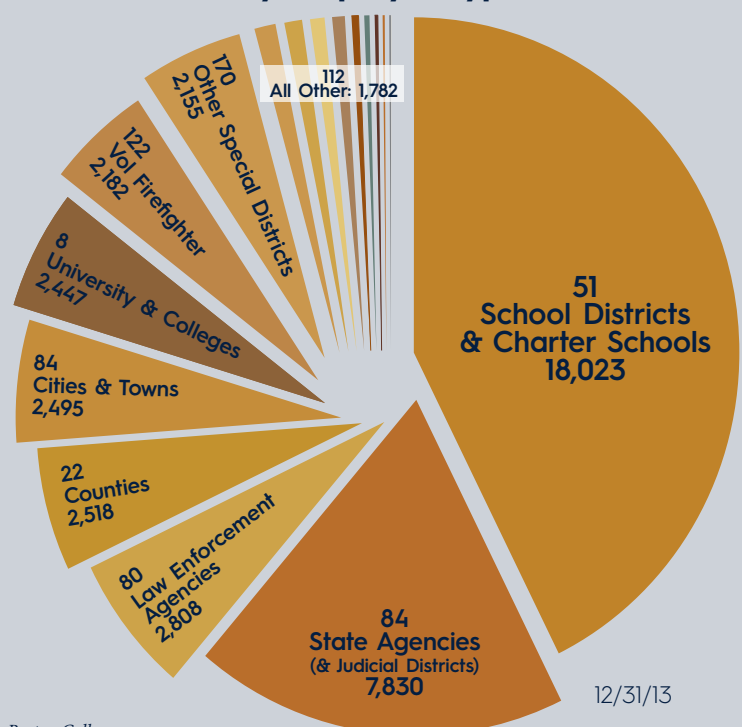
Governed by a Board of Trustees

WRS is governed by a Board of Trustees comprised of the state treasurer, five trustees who are members of WRS' pension plans and five "at-large" trustees who are not. With the exception of the Treasurer, board members are appointed by the governor and confirmed by the Wyoming Senate. State law ensures the political affiliation on the Board is balanced and the five trustees who are WRS members represent different employer and employee constituencies.

Because the retirement trust fund is of great importance to the entire state, WRS reports to the governor and legislatively reports to the Joint Appropriations Committee. The Board's duty is to manage WRS' assets and liabilities to keep the retirement plans financially sound. Trustees are fiduciaries and required by law to act prudently and in the best interest of the members.

The Board employs an executive director who oversees day-to-day operations which includes a staff of 37 full-time employees, one external project manager, and two temporary employees.

WRS Pension Plan Membership By Employer Type



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¹ Do Public Pensions Help Recruit and Retain High-Quality Workers? Center for Retirement Research at Boston College



Member Benefits

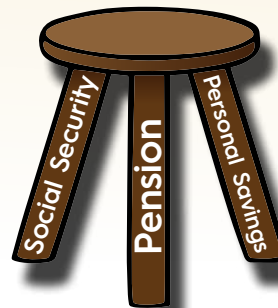
The ideal for retirement income security is a “three-legged stool,” with each leg of the stool representing a different source of income during retirement years. This is what most public employees in Wyoming have available to them with a pension, personal investments through the 457 Plan and other sources, and Social Security.

- **Pension:** WRS Pension Plans provide a member a monthly payment for life once the member meets age, vesting and service qualifications. In general, the amount of this “defined benefit” is determined by a formula based on the member’s salary, length of service and age at retirement.
- **Personal Investments:** WRS administers a Deferred Compensation 457 Plan (457 Plan), which is an elective supplemental savings plan. The 457 Plan is a type of “defined contribution” plan and is commonly understood as a 401(k) plan for the public sector. The 457 Plan allows individuals to build personal assets for retirement inside a tax-advantaged structure with both pre-tax and after-tax options.
- **Social Security:** Most of WRS’ members also participate in Social Security with the exception of paid firefighters and some police.

Members

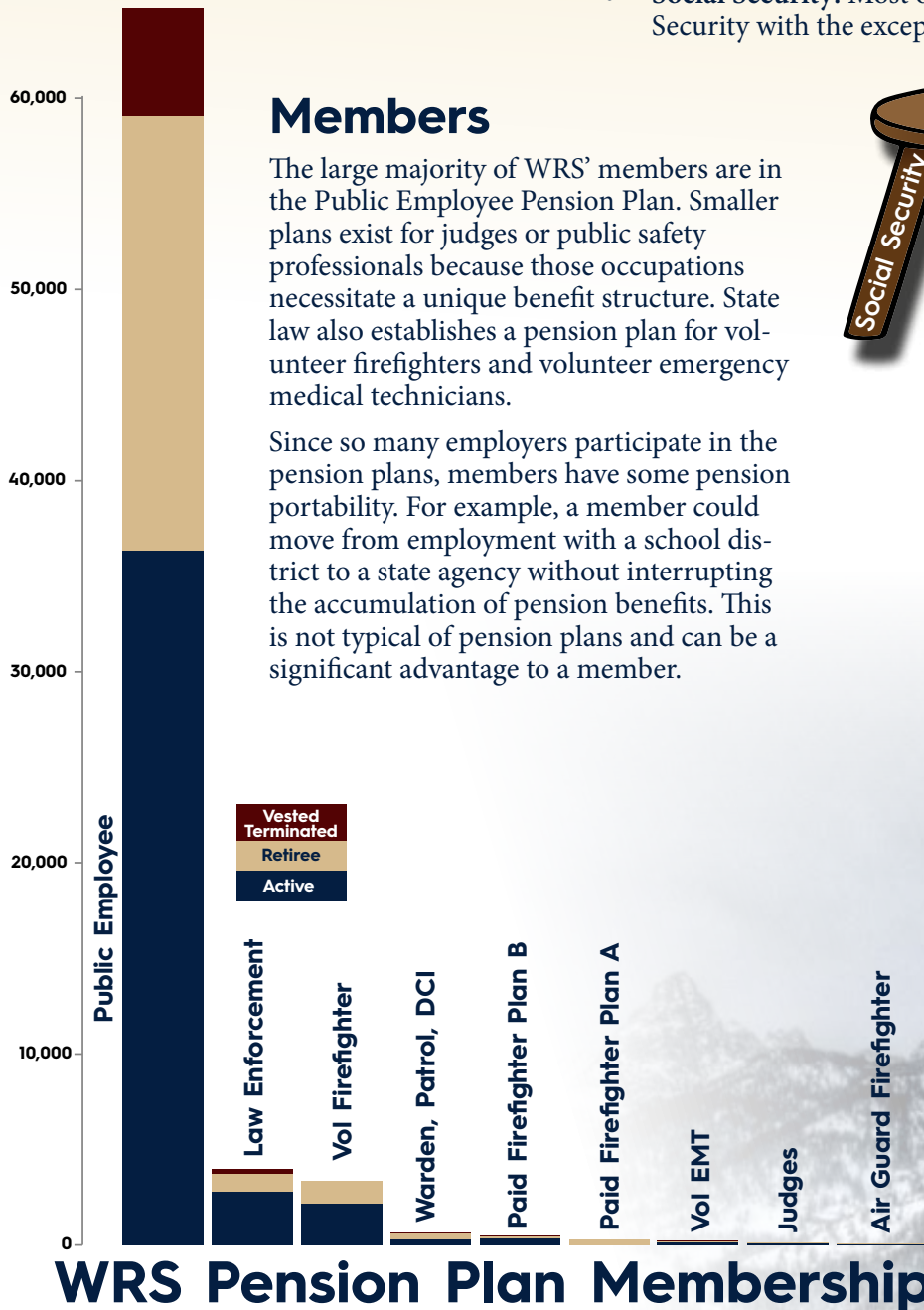
The large majority of WRS’ members are in the Public Employee Pension Plan. Smaller plans exist for judges or public safety professionals because those occupations necessitate a unique benefit structure. State law also establishes a pension plan for volunteer firefighters and volunteer emergency medical technicians.

Since so many employers participate in the pension plans, members have some pension portability. For example, a member could move from employment with a school district to a state agency without interrupting the accumulation of pension benefits. This is not typical of pension plans and can be a significant advantage to a member.



The three-legged stool provides a special advantage by diversifying the retiree’s sources of income. Even in the event of a long life span, there isn’t a concern about running completely out of money in retirement with lifetime payments from the pension and Social Security. Because

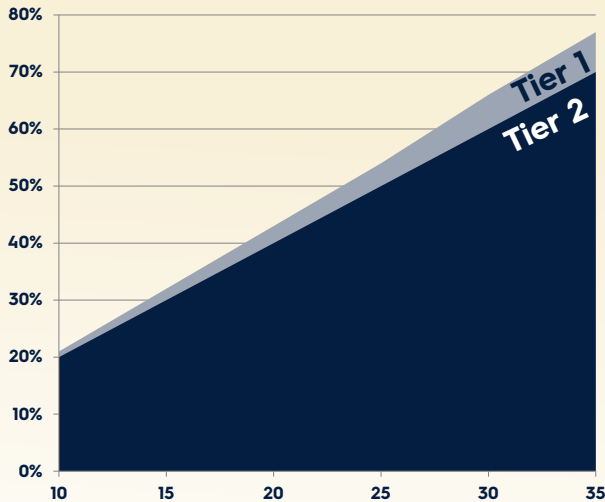
every person’s situation is unique, the 457 Plan allows each individual to decide how much to invest in working years to supplement other retirement benefits.



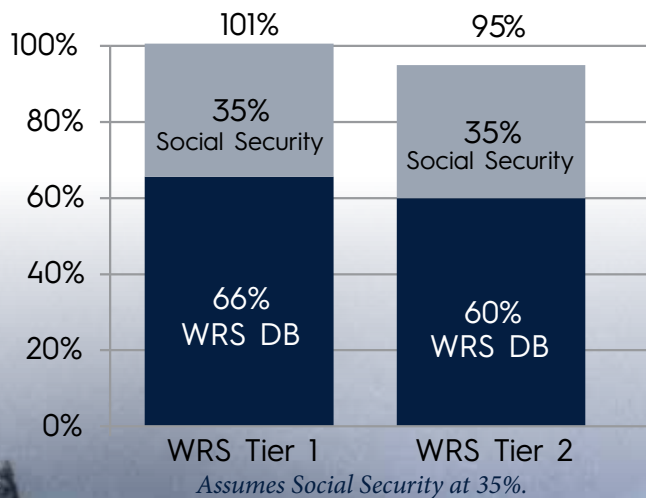
Benefit Comparison for WRS' Public Employee Pension Plan

The Public Employee Pension Plan has two tiers of benefits. Tier 2 is a modestly reduced tier of benefits for newer employees. The average benefit paid to retirees in 2013 was \$17,555 annually or \$1,463 a month. The average service at retirement is 19.4 years. In 2013, 18 percent of all retirees were career employees with 30 or more years of service.

WRS Pension Income Replacement Ratio by Years of Service at Full Retirement Age



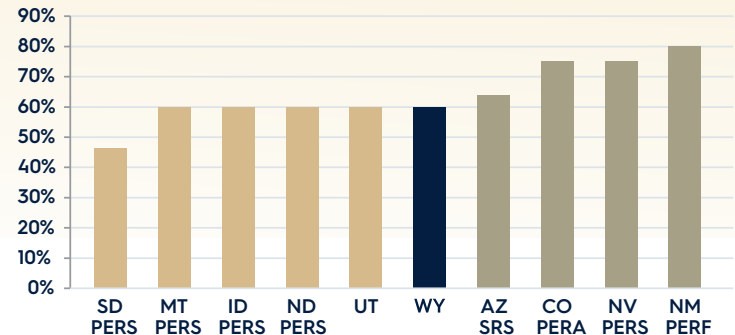
When combined with Social Security, the benefits of the Public Employee Plan Tier 1 or Tier 2 would allow career members, assumed to be 30 years of service, to maintain their pre-retirement standard of living.



Summary of Benefit Provisions for the Public Employee Plan

	Tier 1 Hired before 9/1/12	Tier 2 Hired on or after 9/1/12
Highest Average Salary	highest 36 consecutive months of salary divided by 3	highest 60 consecutive months of salary divided by 5
Multiplier	2.125% per year for first 15 years and 2.25% for each year after	2% for each year of service
Full Retirement Age	age 60 with at least 48 months of service	age 65 with at least 48 months of service
Vesting	48 months of service	48 months of service
Can retire without reduction at rule of 85 (age+years of service=85)	Yes	Yes
Earliest Eligibility for Reduced Retirement	age 50 with 48 months of service or any age with 25 years of service	age 55 with 48 months of service or any age with 25 years of service

When compared to a regional peer group, WRS Tier 2 pension benefits are within the norm.



Source: NASRA 2011. Not all plans participate in Social Security or have COLA provisions.

Although the benefit formula provides adequate income for career employees at the time of retirement, there is not a promised cost of living (COLA) provision. State law has stringent funding requirements that must be met before a COLA award could be granted from retirement trust funds.

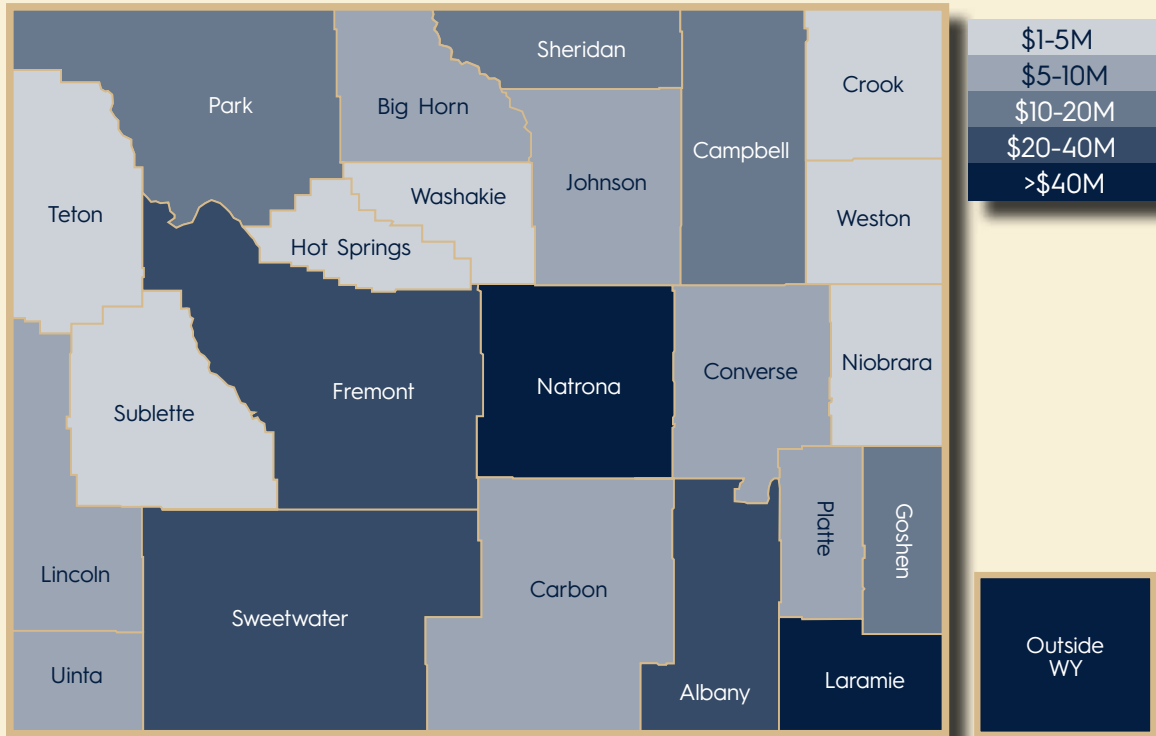
Members will need to rely upon personal savings or other income to offset the effects of inflation. Especially for those members with shorter service, the 457 Plan is an important supplement to the pension and Social Security that enables members to establish a livable retirement income for the long-term.

Economic Impact

In 2011, contributions to WRS' pension plans were 1.61 percent of Wyoming's state and local government general budget spending. The national weighted average for state pension plan spending is 3.72 percent.ⁱ Contributions to WRS' pension plans are a relatively small part of state spending, but the benefits of this spending do not go to pension plan members and their employers alone.

In 2013, WRS paid over \$438.4 million in benefits to retirees. About 80 percent of these payments remain in Wyoming. The ripple effect of these payments helps to stimulate and stabilize both the state and local economies. Pension payments also offer excellent retirement security and reduce economic hardship among the elderly.

ⁱ State and Local Government Spending on Public Employee Retirement Systems, National Association of State Retirement Administrators, May 2014



Policy Considerations

The characteristics of defined benefit and defined contribution plans offer different strengths and weaknesses. One of the differences is in determining to what degree employers or individual employees bear the responsibility for an adequate retirement benefit. Defined benefit plans put most of the longevity and investment risk on the employer, while these risks rest primarily with each individual member in a defined contribution plan. Defined benefit plans are designed to offer members a base level of income replacement and security. A defined contribution plan allows for potential wealth accumulation.

In general, a defined benefit plan can pay more retirement benefit than a defined contribution plan for the same amount of contribution. Defined benefit plans can achieve cost-savings and superior returns as a result of professionally managing a large pool of assets. Additionally, defined benefit plans can base their actuarial assumptions on average lifespans and their investment strategy on a long investment horizon. Individuals would need to save more and adjust their investments according to a time horizon in order to have the assets to cover a potentially long lifespan.

Defined benefit pension plans are more complex for employers to manage in terms of contribution requirements, assets and liabilities. Careful management

necessitates ongoing monitoring of the assumptions and funding status which could then result in incremental changes based on data. Once changes are made, time is needed to determine the effect.

Defined contribution plans offer more individual choice and more portability. Members of a defined contribution plan make individual decisions about how much to contribute, how to invest and how to withdraw. A defined contribution plan is potentially most valuable to employees with shorter tenure and would be portable beyond the employers participating in WRS.

However, when a defined contribution plan is the primary retirement plan, the amount of an individual's ongoing income at retirement is uncertain. Short-term market conditions and uninformed investment decisions can have a large impact on an individual's retirement income. Additionally, it is possible for retirees to run out of money, particularly if one lives a long time after retirement. In order to avoid negative impacts, retirees would need to annuitize assets, usually at an additional cost.

The WRS Board believes, and passed a resolution affirming, that a defined benefit plan supplemented by the 457 Plan is the best way to provide retirement benefits for the public employees of Wyoming. In Wyoming, this requires a partnership with State policymakers to prudently manage the associated risks and provide promised benefits.



Funding Status

A defined benefit pension plan requires an actuarial study, or valuation, to estimate the long-term liabilities of the plan based on assumptions about investment returns, inflation, future salary increases, member life spans and other information. The funded ratio—assets of the plan divided by liabilities—is a key measure of a pension plan's health.

According to the Society of Actuaries, pension plans should have a funding policy targeting 100 percent. However, a current ratio below 100 percent does not necessarily indicate a funding problem. The funding status is most meaningful when viewed in the context of additional factors such as the adequacy of incoming contributions, financial health of member employers, investment strategy, projected trends in funding status, and the realized accuracy of actuarial assumptions.

The WRS Public Employee Plan is healthy and sustainable. Over the past few years, changes were made to benefits and contributions to ensure it is sustainable over the long-term. The Public Employee Plan had a funded ratio of 77.62

percent as of 1/1/2014 compared to 72.80 percent the year prior. Projections show a 114.7 percent funded ratio in the year 2044. The projected trends of this Plan lead to full funding in 2036, which is 8 years ahead of the 30 year amortization period. Careful management by the Board, as well as partnerships with the Legislature and other stakeholders has positioned the Plan for ongoing sustainability over the long-term.

The Board closely monitors funding status and has a valuation report done for each plan every year. For 1/1/2014, the valuations were more favorable than anticipated due to higher than expected investment earnings along with gains on assumptions such as salary increases (which were less than projected). The Board is not seeking contribution increases or benefit adjustments in any plan at this time. Due to unique circumstances, the long-term funding status of the Paid Firefighter A Plan and the Volunteer EMT Plan remains in question and a legislative solution is required to address problems in those two plans.

Contribution and Funded Ratio by Plan as of 1/1/2014 With New Assumptions

Plan	Current Contribution Rate	1/1/2014 Funded Ratio - New Assumptions	1/1/2013 Funded Ratio - New Assumptions	30 Year Projection of Funded Ratio
Public Employee	16.62%*	77.6%	72.8%	114.7%
Warden, Patrol, & DCI	29.44%*	77.4%	73.3%	95.7%
Law Enforcement	17.20%	92.4%	87.9%	122.8%
Judicial	23.72%	103.0%	102.1%	158.0%
Paid Fire B	21.245%*	99.1%	94.9%	101.7%
Guard Fire	23.77%	89.1%	86.8%	173.6%
Paid Fire A (in \$)	\$0	68.3%	67.2%	0.0%
Volunteer Firefighters (in \$)	\$2,227,300	92.2%	87.6%	225.9%
Volunteer EMTs (in \$)	\$22,050	131.7%	117.3%	0.0%

* Effective July 1, 2015

Investments

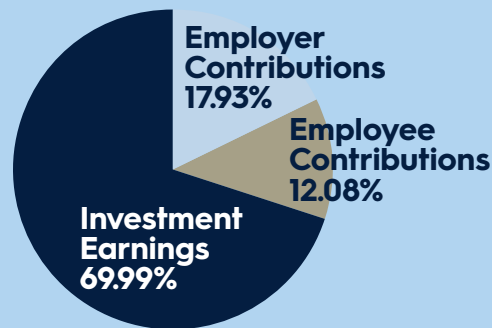
WRS invests approximately \$7.5 billion with a combined investment strategy for all plans. The Board establishes parameters for asset allocation and delegates investment manager and tactical allocation decisions to its chief investment officer with executive director approval. The asset allocation is designed to achieve the Board's assumed rate of return over long time periods. In February 2013 the Board reduced the assumed rate of return from 8 percent to 7.75 percent. The Board also measures performance relative to shorter-term benchmarks in order to evaluate investment policy implementation decisions.

Financial Summary

WRS receives statutorily required incoming contributions, from both employers and employees, to pre-fund future pension benefit payments. This allows WRS to invest the contributions and increase assets available to pay benefits over the long term. Each plan has a different contribution rate, generally based on what is needed to fund promised benefits.

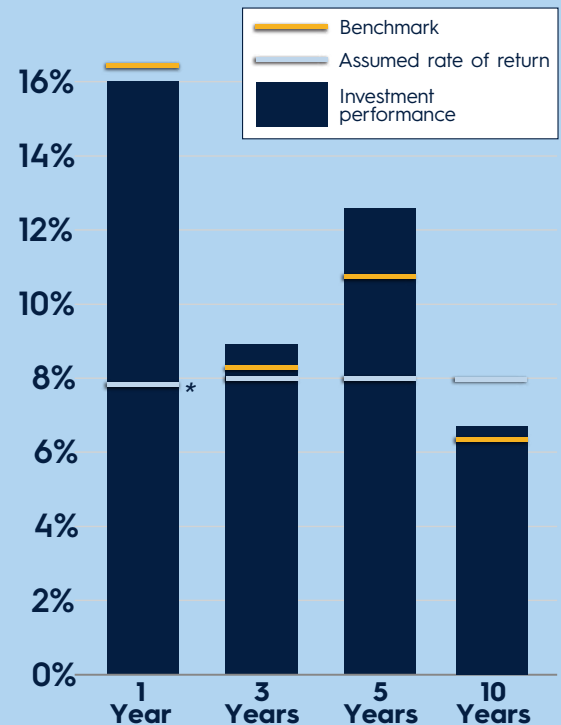
In 2013, WRS received \$293.7 million in incoming contributions for all plans. In aggregate, the pension plans are "mature" meaning more is paid out in benefits than is received in contributions. This is a normal part of the lifecycle of a pre-funded pension plan and not indicative of funding problems.

Between 1993 and 2012, 70% of Wyoming retiree payments came from investment earnings on employer and employee contributions.



Pensionomics 2014, National Institute on Retirement Security

Annualized Returns as of 6/30/14



**In 2014 the WRS Board reduced the assumed rate of return from 8% to 7.75%*

2013 Financial Summary for All Plans Combined

Contributions	\$293,718,316	Investment Income	\$897,439,911	Benefits	\$460,482,388
Employer	\$142,165,058	Net Change in Fair Value	\$758,384,187	Pension Benefits	\$438,430,474
Member	\$142,017,423	Interest & Dividends	\$177,813,360	Refunds	\$22,051,914
Other	\$9,535,835	Securities Lending	\$4,225,161		
		Investment Expense	-\$42,982,797		

Wyoming Retirement System

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